CENTRAL BOWIE COUNTY WATER SUPPLY CORPORATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year ended December 31, 2022

Central Bowie County Water Supply Corporation
ANNUAL FINANCIAL REPORT
For the year ended December 31, 2022

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FINANCIAL SECTION

Central Bowie County Water Supply Corporation
DIRECTORY OF PRINCIPAL OFFICIALS
December 31, 2022

BOARD OF DIRECTORS

OFFICERS

Harrell Hignight, President
James MacKay, Vice President
Tom Coleman, Secretary-Treasurer

MEMBERS

Brian Proctor
Jason Capps
Jerry May
Earnest Shelton, Jr.
Johnny Clack
Gary Fannin

MANAGEMENT

Hal Harris, Manager

CPAs & Advisors

Bob J. Arnold, CPA, PFS
Lanny G. Walker, CPA, PFS
Kris Arnold, CPA, PFS
Andrew Arnold, CPA
Melissa J. Godfrey, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central Bowie County Water Supply Corporation
New Boston, Texas

Opinion

We have audited the accompanying financial statements of Central Bowie County Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Bowie County Water Supply Corporation as of December 31, 2022, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Central Bowie County Water Supply Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Bowie County Water Supply Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Arnold, Walker, Arnold & Co., P.C.

ARNOLD, WALKER, ARNOLD & CO., P.C.
March 3, 2023

Central Bowie County Water Supply Corporation
Statement of Financial Position
As of December 31, 2022

Assets	
Current Assets	
Cash and cash equivalents	1,055,496
Accounts receivable	97,708
Unbilled accounts receivable	157,086
Inventory	129,218
Prepaid insurance	12,299
Total current assets	1,451,807
Restricted Assets	
Restricted for memberships--	
Cash and cash equivalents	295,550
Restricted for debt service--	
Cash and cash equivalents	216,228
Restricted for capital projects--	
Cash and cash equivalents	239,000
Restricted for advanced metering system--	
Cash and cash equivalents	377,133
Total restricted assets	1,127,911
Capital Assets	
Land	16,973
Other capital assets, net of accumulated depreciation	10,662,677
Total capital assets	10,679,650
Other Assets	
Organization expense	4,923
Total other assets	4,923
Total assets	13,264,291
Deferred outflow of resources	-
Liabilities	
Current liabilities	
Accounts payable	27,506
Accrued expenses	11,644
Notes payable, current	230,918
Total current liabilities	270,068
Non-current liabilities	
Notes payable, non-current	5,316,128
Total liabilities	5,586,196
Deferred inflow of resources	-
Net assets	
Net investment in capital assets	5,563,737
Restricted for debt service	216,628
Restricted for memberships	295,500
Restricted for capital projects	239,000
Unrestricted	1,363,230
Total net assets	7,678,095

The accompanying notes are an integral part of this financial statement.

Central Bowie County Water Supply Corporation
Statement of Activities
and Changes in Net Position
For the year ended December 31, 2022

OPERATING REVENUES	
Water sales	1,650,406
Fees and charges	354,126
Total revenues	2,004,532
OPERATING EXPENSES	
Depreciation	283,633
Dues and fees	352,529
Employee benefits	44,035
Insurance	31,626
Line installation	69,593
Miscellaneous	14,260
Professional fees	51,420
Repairs and maintenance	119,080
Salaries	280,077
Supplies	135,265
Taxes-payroll	21,092
Utilities and telephone	53,349
Water purchases	372,923
Total operating expenses	1,828,882
Net operating income (loss)	175,650
NONOPERATING REVENUE (EXPENSES)	
Interest income	12,662
Interest expense	(113,790)
Total nonoperating revenues (expenses)	(101,128)
Net income (loss) before contributions	74,522
Capital contributions, memberships	3,500
Changes in net assets	78,022
Net assets, beginning of year	7,600,073
Net assets, end of year	7,678,095

The accompanying notes are an integral part of this financial statement.

Central Bowie County Water Supply Corporation
Statement of Cash Flows
for the year ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	1,969,292
Cash payments to suppliers for goods and services	(1,263,114)
Cash payments to employees for services and benefits	(324,112)
Net cash provided by operating activities	382,066
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Capital contributions, memberships	3,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(1,969,904)
Principal paid on debt	(131,669)
Interest paid on debt	(113,790)
Net cash provided by capital and related financing activities	(2,215,363)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	12,662
Net cash provided by investing activities	12,662
Net increase in cash and cash equivalents	(1,817,135)
Cash and cash equivalents, beginning of year	4,000,542
Cash and cash equivalents, end of year	2,183,407

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	175,650
Adjustment to reconcile operating (loss) to net cash provided by operating activities	
Depreciation	283,633
Increase in accounts receivable	(35,240)
Increase in accounts payable and accrued expenses	4,792
Decrease in prepaid expenses	421
Increase in inventory	(46,590)
Net cash provided by operating activities	382,666

The accompanying notes are an integral part of this financial statement.

Note 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Central Bowie County Water Supply Corporation was incorporated in 1971 for the purpose of providing water service to its members. A Board of Directors is elected by the membership and directs the activities of the organization. The Board has assigned the administrative duties to a staff headed by corporate officers, who are authorized to enter into contract agreements with other parties on behalf of the organization.

Income Taxes

Central Bowie County Water Supply Corporation operates as a non profit organization and has been classified as exempt for federal income tax purposes by the State of Texas and the Internal Revenue Service under Code Sec. 501(c) 4.

Basis of Accounting

The accounting policies of the Corporation conform to generally accepted accounting principles.

The Corporation maintains one set of records to account for all corporate financial transactions. Interim internal financial reporting is on the cash basis of accounting. These financial statements are presented using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred under the accrual method.

Property, Plant and Equipment

Prior to 1981, property and equipment are shown in the aggregate only. For purchases in subsequent years, property and equipment are stated at cost, and the related depreciation is charged as an expense against operations. On the Statement of Net Assets, property and equipment is shown net of accumulated depreciation. Generally, the Corporation capitalizes fixed asset purchases with a cost of $500 or more and a life of more than one year. Current year additions to fixed assets receive one-half year of depreciation in the year of acquisition. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

Equipment and automobiles	5 years
Plant and facility	20 years
1992 Expansion project	40 years
Extensions and lines	66 years
Property acquired before 12-31-81	66 years

Budget

Each year the Corporation's management prepares a budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The budget is amended during the year as needed.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, checking accounts, and the time deposit accounts. All certificates of deposits are classified as cash and cash equivalents

Restricted Assets

The Corporation has short-term investments that are restricted for debt service payments.

Compensated Absences

The Corporation utilizes the accrual method for recording compensated absences. All full-time employees are granted one week of vacation (40 hours) upon the first year of service. After two years of service, employees are granted two weeks of vacation (80 hours). After twelve years of service, employees are granted the maximum accrual of three weeks of vacation (120 hours). A regular work week consists of 40 hours per week. Accrued compensated absences are recorded in accordance with Statement of Financial Accounting Standards No. 43.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2--CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Corporation to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Corporation to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Corporation to have independent auditors perform test procedures related to investment practices as provided by the Act. The Corporation is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the Corporation are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the Corporation has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Corporation's policy regarding types of deposits allowed and collateral requirements is that the funds of the Corporation must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the Corporation's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.
Deposits of the Corporation are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Corporation.

At December 31, 2022, the carrying amount of the Corporation's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $2,183,407 and the bank balance was $2,139,735. The Corporation's cash deposits at December 31, 2022 and during the year ended December 31, 2022 were not entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation's name.

In addition, the following is disclosed regarding coverage of combined balances at the depository bank as of December 31, 2022:

a. Depository: Guaranty Bank & Trust

b. The market value of securities pledged as of December 31, 2022 was $0.

c. The December 31, 2022 balances of cash, savings, and time deposit accounts amounted to $542,149.

Total amount of FDIC coverage at the time of the highest combined balance was $500,000.

In addition, the Corporation has deposits with Edward Jones of $1.264 million as of December 31, 2022. Also, $377 thousand of lease proceeds remain on deposit at Bank OZK Trust to complete the advanced metering system.

Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The Corporation has no investments exposed to custodial credit risk at the end of the period.

Interest- rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for these securities if interest rates rise. The Corporation does not purchase investments where the face value is not guaranteed.

Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The Corporation is not exposed to any amounts of concentration risk.

Other Credit Risk Exposure – The Corporation has no investments.

Note 3--WATER BILLING RECEIVABLES

The Corporation has accounts receivable from billed amounts of $97,708. The Corporation does not record an allowance for uncollectibles. Each member's investment in the Corporation generally covers final bills. Water cut-off rules are very stringently enforced. Unbilled water usage of $157,086 from December to be collected in January, 2023 is reflected also.

Note 4--PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the fixed assets at December 31, 2022:

	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022
Land	16,973	-	-	16,973
New building	279,306	-	-	279,306
Equipment	163,668	-	-	163,668
Extensions and lines	2,130,917	-	-	2,130,917
Office equipment	206,324	-	-	206,324
Automobiles	214,296	-	-	214,296
Plant facility	1,431,799	-	-	1,431,799
1992 expansion project	2,393,647	-	-	2,393,647
2013 TWDB Project	2,081,465	-	-	2,081,465
USDA Phase 1	1,847,905	-	-	1,847,905
USDA Phase 2	2,902,430	-	-	2,902,430
Advanced metering system	-	1,969,904	-	1,969,904
Projects in progress	134,879	-	-	134,879
Totals	13,803,609	1,969,904	-	15,773,513
Less: Accumulated depreciation				(5,093,863)
Net property, plant and equipment				10,679,650

Depreciation expense for the year ended December 31, 2022 is $283,633.

Note 5--CHANGES IN NOTES PAYABLE

The following is a summary of notes payable transactions by the Corporation for the year ended December 31, 2022:

	Original Amount	Payable Jan. 1 2022	Additions	Reductions	Payable Dec. 31 2022
A) USDA Rural Development Loan #5	2,250,000	1,790,890	-	(44,840)	1,746,050
B) USDA Rural Development Loan #7	2,072,487	1,505,097	-	(86,829)	1,418,268
C) First Sercurity Finance, Inc.	2,382,728	2,382,728	-	-	2,382,728
	6,705,215	5,678,715	-	(131,669)	5,547,046

Details of notes payable as of December 31, 2022, follows:

A) USDA Rural Development Loan #5-for water lines and storage tank; monthly payments of $7,425 including 2.5% interest over 40 years.	1,746,050
B) USDA Rural Development Loan#7-for waterlines and pumpstation, interest at 2.75%, repay over 40 years.	1,418,268
C0 First Sercurity Finance, Inc.- for advanced metering system install, interest at 3.65%, repay over 17 years	2,382,728
	5,547,046

Years ended 12/31	Principal	Interest	Total
2023	230,918	167,018	397,936
2024	238,818	159,862	398,680
2025	249,461	152,407	401,868
2026	260,506	144,593	405,099
2027	271,558	136,410	407,968
2028-2032	1,525,922	546,341	2,072,263
2033-2037	1,630,511	289,740	1,920,251
2038-2042	567,872	99,811	667,683
2043-2047	398,434	43,871	442,305
2048-2052	173,046	4,356	177,402
Total	5,547,046	1,744,409	7,291,455

The Corporation is in compliance with debt covenant requirements.

Note 6--CASH FLOW INFORMATION

During the year ended December 31, 2022, $113,790 cash was disbursed for interest.

Note 7--RETIREMENT PLAN

In 2001 the Corporation established a Simplified Employer Pension Plan (SEP)-IRA. The Corporation makes a 3% nonmatching contribution to eligible employees. Eligible employees are defined as full-time employees at least 18 years of age with one year of service. The Corporation elected to retroactively commence the pension contribution from September 1998. In 2022, the Corporation made $3,640 in non-matching contributions.

Note 8--RISK MANAGEMENT

The corporation is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2022, the corporation purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 9--RESTRICTED ASSETS

The Corporation reflects restricted assets for debt service of $216,228 and for capital projects of $239,000 and for memberships of $295,500.

Note 10--OTHER INFORMATION

Number of water customers at December 31, 2022 was 2,947.

For the year ended December 31, 2022, in 1,000's of gallons:

Water purchased	241,209	
Water pumped	261,222	(unaudited)
Water sold	165,611	
Flush/leaks	28,512	(unaudited)

Insurance Coverage--

EMC Insurance	
Liability	3,000,000
Auto	1,000,000
Directors and officers	1,000,000
EMC Insurance	
General property	4,405,000
Lloyd's	
Worker's compensation	1,000,000

Note 11—SUBSEQUENT EVENT

Management has evaluated subsequent events through March 3, 2023, the date which the financial statements are available to be issued.